UNITED
NATIONS

TD

United Nations
Conference
on Trade and
Development

Distr.
GENERAL

TD/B/COM.3/19
2 October 1998

Original: ENGLISH

TRADE AND DEVELOPMENT BOARD
Commission on Enterprise, Business
Faciliation and Development
Third session
Geneva, 23-27 November 1998
Item 3 of the provisional agenda

POLICY ISSUES RELEVANT TO INTER-FIRM COOPERATION, CLUSTERING AND NETWORKING

Report by the UNCTAD secretariat

Globalization and the post-Uruguay round have brought with them a new competitive environment and hence new requirements for sustained competitiveness on the part of firms. International partnering, networking and clustering within localities are some of the best ways to build and sustain the kind of competitiveness that small- and medium-sized enterprises need to survive and grow in a globalizing economy. Two expert meetings, one on partnering and the other on clustering and networking, were held in 1998. Experts reviewed the role of public policies promoting inter-firm cooperation, regional clusters, export processing zones and business incubators, as well as support measures and programmes. Both expert meetings underlined the primary role of Governments in providing an enabling macroeconomic environment, legal and regulatory framework and basic infrastructure for cooperation among firms via partnerships, clustering and networking. Governments could also encourage and empower meso-level institutions such as business associations, academic institutions, business service centres and non-governmental organizations, to play an active role in promoting these activities. UNCTAD was requested *inter alia* to undertake a number of studies including (a) to develop criteria and checklists of conditions, capacities, and attitudes that make companies "partnership-ready"; and (b) to prepare a study on innovative, non-fiscal incentives which can be used to promote clustering and networking. The Commission is asked to review the outcome of these meetings and their recommendations with a view to setting the work programme for 1999.

GE.98-51863 (E)

CONTENTS

	Paragraphs	Page
Introduction	1 - 6	3
Implications of the post-Uruguay Round economic environment for enterprise development	7 - 10	4
A. Expert Meeting on Inter-Firm Cooperation (20-22 April 1998)	11 - 24	6
B. Expert Meeting on Clustering and Networking for SME Development (2-4 September 1998)	25 - 42	9
Recommendations addressed to Governments		
Recommendations addressed to UNCTAD		

Introduction

Background and mandate

1. As mandated by the ninth session of the United Nations Conference on Trade and Development (UNCTAD IX), the Commission on Enterprise, Business Facilitation and Development deals with the areas defined in paragraphs 89 (h)-(j) and 92-94 of "A Partnership for Growth and Development" (TD/378/Rev.1).

2. During its first session, the Commission on Enterprise, Business Facilitation and Development recognized the crucial role played by enterprises - in particular small- and medium-sized enterprises (SMEs) - in stimulating broad based, equitable and sustainable development. It also acknowledged the changing global economic environment and the pressures faced by SMEs as a result. In particular, the increased knowledge intensity of production and the diffusion of innovation-based competition have raised the levels of technological and managerial capacity required for enterprise growth. This creates a special challenge for the SMEs. As a result, the Commission stressed the need to develop a coherent strategy for enterprise development, with a particular focus on SMEs.

3. One of the main conclusions to come out of the first session of the Commission was the importance of the role of the State in creating an effective enabling environment and in facilitating the development of an entrepreneurial culture, stimulating innovation and promoting inter-firm cooperation, both nationally and internationally. The Commission recognized that further analytical work and policy research within UNCTAD was needed to develop enterprise development strategies, and identified four areas for future work:

(a) The respective roles of government and the private sector, including non-governmental organizations, and the interactions between them in creating a coherent policy framework and setting up effective support measures and structures for the development of SMEs and micro-enterprises, in particular those in least developed countries;

(b) The possible value as well as the ways and means of promoting and facilitating effective inter-firm cooperation, including clustering, networking and technology partnership, both domestically and internationally, as an instrument in fostering the development and competitiveness of enterprises;

(c) The development of innovation, entrepreneurial and technological capabilities as essential inputs for the development and growth of enterprises; and

(d) The short- and long-term impacts of macroeconomic reform and liberalization on the development and growth of enterprises, particularly SMEs.

In line with the above topics, the first expert meeting convened by the Commission discussed government and private sector roles and interactions in SME development.

4. The first expert meeting resulted in a number of specific policy recommendations. Drawing on their experiences from around the world, the experts discussed measures to promote constructive dialogue between the public and private sectors. The need for representation of all sectors of the community, including the SME sector, was emphasized. The vital importance of policy coordination was noted. Indeed, without policy coordination, it was observed that policies could operate at cross purposes, increasing the likelihood of wasting resources. Coordination, it was stressed, not only included consistency between macro and micro policies but also between all levels of government and between private- and public-sector bodies. Finally, the meeting discussed the potential role for both public and private sectors in the provision of SME support services, and the need for Governments to adopt the principle of subsidiarity.

5. These policy recommendations were discussed at the second session of the Commission on Enterprise, Business Facilitation and Development. That session reconfirmed the importance of promoting and strengthening the enterprise sector, especially the SME sector, with a view to enhancing employment, growth and sustainable development. In addition, following on from the first session, the second session emphasized the great - and previously little noted - potential of inter-firm cooperation in helping enterprises to upgrade technologically and to better meet the challenges of the globalizing world economy. The Commission therefore called upon the UNCTAD secretariat to organize two further expert meetings: the first to discuss the role of government policy and private action in promoting inter-firm partnerships of the more formal nature and the second to consider the role of policy and support structures in promoting more informal networks and clusters of SMEs within developing countries.

6. The provisional substantive agenda for the present session, approved by the Commission at its second session, includes the implications of the post-Uruguay Round economic environment for enterprise development, including policy issues relevant to inter-firm cooperation and clustering (agenda item 3). This report has been prepared by the UNCTAD secretariat in order to facilitate consideration of this item. The report briefly reviews the new competitive environment and how SMEs can meet some of these competitive pressures through inter-firm partnering, clustering and networking. The report then explores in more detail the main findings of the two expert meetings mandated by the Commission on Enterprise, Business Facilitation and Development at its second session held from 1 to 5 December 1997.

Implications of the post-Uruguay Round economic environment for enterprise development

7. Globalization and the post-Uruguay Round have brought with them a new competitive environment and hence new requirements for sustained competitiveness on the part of firms everywhere in the world today. Most people associate the process of globalization with a fall in the costs of

moving goods and people, the speed with which information circulates and the growing homogenization of consumer tastes. In addition, there are a number of fundamental changes that are taking place in the processes of production and competition. Globalization has brought about these fundamental changes across all economic activities. They affect all industries from shrimp farming to clothing to software. The first change is the growing knowledge-intensity of production. The second is that, within the context of more knowledge-intensive production processes, firms compete not only on price but also on the basis of their ability to innovate. Continuous improvement in product, process, technology and organization have become the keys to sustained competitiveness in a globalizing economy. The third fundamental change is that this new innovation-based mode of competition has been diffused as markets are liberalized everywhere. Micro, small- and medium-sized enterprises are under pressure to innovate and change. However, they often do not have the resources to do so.

8. Inter-firm cooperation, networking and clustering can fill in this "resource gap". Such cooperation can occur on two levels. Either firms interface internationally via formal partnering arrangements, or domestic firms interface locally through clustering and networking. The expert meetings on these subjects revealed that public policies and a variety of structures both public and private designed to support partnering, networking and clustering can be very effective in strengthening the SME sector. Indeed, clustering and networking within localities is one of the best ways to build and sustain the kind of competitiveness that SMEs need to survive and grow in a globalizing economy.

9. The recent crisis in South-East Asia has also underlined some negative aspects of liberalization in that all economies are affected by financial instability, whether or not they are the source of the problem. Pressure by creditors is increasing interest rates and penalizes all enterprises and SMEs in particular. The current Asian financial and economic crisis has hit the SME sector in the region directly in three major ways. Firstly, aggregate demand for goods and services has contracted significantly, including through the collapse of production, or lower production, of many large companies, and reduced public sector demand. Gross domestic product (GDP) is expected to fall by 6-15 per cent and unemployment has risen sharply in several countries in the region during 1998 (by several millions in Indonesia and Thailand). Secondly, higher import prices due to steep currency devaluation, lower subsidies for public facilities and services for wage-goods, and higher cost of bank financing (if obtainable) have combined to raise domestic inflation, by double-digit rates (some 10-30 per cent during the first quarter or first half of 1998) in several of these countries; certain basic food prices have more than doubled (e.g. for rice, cooking oil and eggs in Indonesia). Thirdly, the burden of servicing of existing domestic debt has become much heavier due to sharp increases in interest rates in the formal financial sector while those in the "curb" market or informal credit market (the main sources of finance for small and micro enterprises) have become prohibitive. In addition, the available supply of credit has been considerably reduced, for stabilization purposes.

10. The picture is not uniformly bleak for all SMEs in South-East Asia. Those SMEs catering largely for export markets and relying mostly on local materials and inputs, have managed to raise their production and export earnings. Many others producing simple manufactures largely for the home markets and utilizing local inputs have been able to increase production, which is being purchased as substitutes for higher-quality but prohibitively expensive imported goods. Nevertheless, their enhanced performance has not been sufficient to offset the aggregate contraction in domestic economic activities, and the fall in export earnings in most crisis-hit countries. Besides, many SMEs are also encountering considerable cost-push difficulties in sourcing for inputs, finance, and transportation and marketing facilities and services.

A. Expert Meeting on Inter-Firm Cooperation (20-22 April 1998)

Mobilizing resources for innovation and competitiveness

11. Inter-firm cooperation has over the past decade become a prominent method of conducting business among firms, mainly in the developed countries and increasingly between firms from developed countries and those from developing countries and economies in transition. The pressure of global competition, the increased dissemination of information and communication technology and the opening up of national economies worldwide, including liberal foreign direct investment and trade regimes have facilitated the development of inter-firm cooperation, which has become an important strategy for the survival and development of firms in a rapidly changing environment.

12. The development of inter-firm cooperation has given rise to a number of issues of concern to different parties, including firms and Governments. Among the most important factors motivating companies from developing countries to enter into cooperation agreements is the need to further develop their technological capacity, improve market access and competitiveness, and promote innovation. Inter-firm cooperation has taken many different forms to achieve these goals. They include vertical linkages between suppliers and clients, horizontal linkages between firms amongst which specialization makes possible greater efficiencies, and a variety of technology partnerships that help to reduce the cost and risks of innovation.

13. Among the benefits to be obtained from inter-firm production agreements, especially those between clients and suppliers, is access to markets, new technological information and flexibility. These are critical to SMEs, particularly in a period in which product life cycles are short and products change frequently. Large vertically integrated firms are at a disadvantage under such conditions. This has created opportunities for smaller firms in developing countries to participate in international production partnerships. Through a continuous process of feedback, such agreements contribute to enhancing product quality and, by reducing inventory costs with just-in-time production organization, help to reduce overall production costs. Production depends on customer orders: the system must be able to respond rapidly to demand. It implies a new labour organization: flexible work teams, which are

able to perform a greater number of tasks and are organized in small production cells, with a flatter hierarchical structure. The growth of small, independent but interdependent firms has proved a vital element in the adjustment of economies to a new competitive environment.

14. Inter-firm cooperation is thus one response to the idea that contacts and cooperation with other firms both at home and abroad may be a way for SMEs to solve their problems and exchange technology information, and that this mutual learning process could be facilitated by external assistance and brokering.

15. Inter-firm agreements that regroup similar local SMEs could also be instrumental in enabling these firms to export, move into new markets and share the research and development (R & D) burden. Partnerships among firms from different sectors could be the vehicle for bringing together complementary activities in the development of a new product.

16. The deliberations at the Expert Meeting focused on three major issues: (a) the implications of inter-firm cooperation; (b) the creation of policy environment conducive to inter-firm cooperation; and (c) support structures, measures and programmes for inter-firm cooperation.

Conditions for successful partnerships

17. The Expert Meeting considered that creative partnerships among firms, involving the blending of capital, technology, marketing and management expertise as well as raw material resources, had become "weapons of choice" in increasing competitiveness and developing new processes and product technologies. The worldwide trend towards the removal of trade barriers appeared to have opened up markets previously accessible only to large companies. SMEs were targeting these new markets and were therefore more likely to enter into partnerships in order to share R & D costs and increase their capabilities. The common feature of those new forms of inter-firm cooperation which extended beyond one-way cooperation schemes lay in the deliberate cooperative intentions of sharing capabilities with a view to developing new products, technologies and processes, or in producing and marketing new products.

18. Experts stressed that successful two-way technology partnerships required a number of conditions to be met which included:

(a) Clarity of motives and structures;

(b) Clear and reasonable targets;

(c) Thorough preparation including obtaining full information on emerging international trends and potential areas and partners for collaboration;

(d) Minimization of the risk of conflict by systematically developing negotiating and communication skills;

(e) Acquiring insights into the potential partner's corporate and national business culture.

19. Creating the conditions for learning required partners to engage in constant and constructive communication and exchange of ideas and being receptive and adaptable as regards the ideas of counterparts. Regularly monitoring and assessing the process of partnerships, as well as the perceptions of partners, contributed to ensuring that objectives were being met. The building of trust throughout the process was also considered important. Three types of trust were identified, namely, contractual trust, goodwill and competence.

Matchmaking

20. It was noted that issues relating to successful inter-firm cooperation, particularly the identification and matching of partners, included social and cultural aspects, which played an important role in the success of cooperation. The main conditions for the success of partnership arrangements included not only mutual respect between partners, but also diversified forms of service infrastructure. "Learning by doing" in the course of inter-firm cooperation should always be the central concern of partners. Among the reasons for the failure of inter-firm partnerships were poor preparation of deals, the lack of diversified structures, the lack of information and transparency, secret agendas, hidden motives, the absence of real stimuli for cooperation, badly formulated objectives, and the absence of monitoring procedures.

21. In discussing the importance of matchmaking in initiating inter-firm cooperation, it was pointed out that all facilities and sources of information should be used to this end, including the Internet and various databases. At the same time, it was stressed that a great number of SMEs from the developing world had no access to modern information technologies. Successful experiences of inter-firm cooperation obtained through permanent monitoring should be made public and widely disseminated so that all parties interested in such cooperation could draw lessons concerning best practice. It was suggested that the experience of different countries with the formation and development of science parks and technology and innovation centres should be examined in more detail. It was also suggested that trade and investment offices, the Internet and UNCTAD's Trade Points should be used for the dissemination of information on partnerships. It was also proposed that the UNCTAD secretariat should compile information on relevant associations and organizations engaged in the promotion of contacts between SMEs, intermediaries and matchmakers with a view to promoting inter-firm cooperation.

22. Experts noted that many aspects had to be taken into consideration when analysing the conditions for the success of a North-South partnership, which went beyond the technological aspect. An entrepreneur from the North would certainly look for good technical skills in a partner from a developing country, but would also be looking for access to the local market, which was absolutely essential if the newly established venture was to succeed. In addition, the local partner should provide direct links with the local administration and local networks of SMEs, and create a sort of consensus

around the initiative from the main local socio-economic counterparts. An important role could be played by intermediary organizations. They could not only provide information on possible partners, but also stimulate flows of knowledge in different situations and at different points in time. Intermediary organizations could prepare diagnoses, pre-feasibility studies and evaluation reports, and could also help overcome obstacles, see hidden opportunities, and come up with and implement solutions.

Promoting South-South partnerships

23. With regard to the impact of the size of companies on the success of inter-firm cooperation, some experts thought that successful deals included those between large and smaller companies, where the first could contribute with experience and clear strategy and the second with flexibility. Other experts felt that the size of the company was not decisive for successful cooperation but considered it important that both partners had something to offer for the success of the arrangement and were ready to take their share of the risk.

24. Some experts also felt that in the case of South-South inter-firm relations, Governments needed to pay particular attention to initiating or promoting such cooperation. Other supportive structures, such as chambers of commerce and business associations, should also deploy efforts to assist in initiating and developing partnership arrangements among firms from developing countries, particularly the least developed countries. In discussing the problems of those countries, the importance of local capital formation, considered to be still at an early stage was stressed. Enterprises in the least developed countries urgently needed technology, knowledge and financial resources, and inter-firm cooperation might be a useful tool for providing those resources. It was also stressed that inter-firm cooperation should have positive impacts at the local level in terms of fostering networking and generating additional knowledge, employment and subcontracting opportunities, and fostering networking.

B. Expert Meeting on Clustering and Networking for SME Development (2-4 September 1998)

25. The deliberations at the Expert Meeting focused on four major issues: (a) regional clusters and enterprise development; (b) export processing zones (EPZs) and local incubators: the importance of SME support systems; (c) the role of public policies in supporting enterprise networks and clusters; and (d) lessons to be learned from field experience.

Regional clusters and enterprise development

26. Networking is most often used to describe formal and informal cooperation between firms. This may take many forms such as linking firms through knowledge exchange, commercial relationships and competition relationships. Clustering is a spatial concept. Firms are located in proximity to each other, but this does not automatically imply collaboration among them. There is a need to transform these clusters into local/regional growth poles reaping the benefits of both physical proximity and networking, thus raising their competitiveness at both the individual firm and systemic

level. Clustering and networking helps SMEs to overcome their major weaknesses - isolation and powerlessness - and to raise their competitive potential through the emergence of linkages between firms, providing economies of scale and scope.

Crises, competitive pressures and the emergence of clusters

27. The Expert Meeting in reviewing the evolution of spontaneous clusters and networks, particularly emphasized the importance of a period of crisis and increased competitive pressure for stimulating change. For example, in the early 1990s the opening of the Brazilian economy had resulted in increased pressure from imports at the same time that the economy was experiencing macroeconomic hyper-turbulence characterized by high interest rates and very high rates of inflation. The effects of the extremely unfavourable macroeconomic conditions on firms were severe, causing them to make a number of changes. Those changes did not only happen at the level of interactions within and between firms but also with regard to the behaviour of local policy makers, business associations and other enterprise support institutions.

28. In Nigeria, the local historical background and conditions of austerity in the period of structural adjustment had resulted in the spontaneous development of the Nnewi automotive parts cluster, which came to supply more than 80 per cent of all automotive parts in Nigeria despite generally low levels of education, poor infrastructure and minimal government support. It was also mentioned that in times of severe crisis, mentality and culture were more flexible than might be expected, as had been the case in Santa Catarina, Brazil; it was suggested that lessons from that case could also be relevant to other countries. The point was raised, however, that although clusters might arise spontaneously, they were set in motion by deliberate actions or circumstances. An example of that was the Bangalore Software Cluster in India, where the decision by the Indian Government to locate particular industries in Bangalore and its policy to develop a pool of skilled labour in that area had led to the development of the industry.

29. It was noted during the discussions that in highly competitive markets, time was needed for networks to emerge. High levels of competition tended to discourage trust, and thus deter firms from engaging in close supplier-client relationships that encouraged the transfer of technology, partnerships and more flexible adjustments to changing competitive conditions. In that regard, the importance of leadership in stimulating the fundamental change that was critical to cluster formation was also emphasized. The issue of trust between SMEs and the Government was also discussed. It was observed that a lack of trust between firms could make cooperation of any kind difficult. It was pointed out that SMEs generally had little trust in the Government, seeing it merely as a source of problems, in the form of taxation, regulations and inspections, rather than assistance. It was suggested, as a result, that local Governments should take the lead in providing assistance to SMEs.

Business associations as intermediaries

30. The increased role of business associations was noted as a key factor in facilitating cluster formation, improvement and sustainability. The central role played by business associations was stressed in the case of the success

of the textile cluster in Santa Catarina, where the role of the business association and in particular the president of the association had been instrumental in stimulating cooperation within the cluster. The role of intermediary institutions in terms of promoting networking and clustering was also emphasized and it was suggested that such institutions could play a role both in promoting already existing clusters and in creating new clusters.

31. Another key lesson that could be drawn from the discussions concerned the role of the State in the provision of the necessary infrastructure. In Bangalore, for example, inadequate infrastructure was raising the costs faced by small enterprises and was thus inhibiting their growth as well as threatening the global competitiveness of the entire software industry.

EPZs and local incubators: the importance of SME support systems

32. The continuing challenge for policy makers and other development actors was to develop innovative, cost-effective support systems to help SMEs become technically efficient and competitive. A consensus had yet to be reached on best practices and there was still some debate on whether subsidized support to small enterprises could be justified. Business development service mechanisms in developing countries were under pressure to be self-financing as Governments and donors faced diminishing resources. However, SMEs in the better endowed countries of the Organization for Economic Cooperation and Development (OECD) continued to receive significant State support.

33. In recent years, there had been a change in the approach to meeting the needs of SMEs. The dominance of government-established enterprise support centres was increasingly giving way to public-private partnerships and voluntary associations. There had also been a move towards convergent enterprise support systems targeting technology-based small enterprises, that comprised both non-financial support services (human resource development, continuing education, research and technology transfer, information and technology sourcing, counselling on management, marketing, accounting, quality control and environment) as well as "work spaces" in which businesses operate.

34. Experts debated the issue of whether enterprise support systems as typified by incubators and technology parks, could or should be extended and replicated to all other work spaces in which businesses operated such as EPZs, industrial parks and enterprise clusters. The idea that services and work spaces were interdependent, and should ideally form an integrated, organic system of support was generally appreciated. It was noted that there had been a shift from SME development centres, science parks and industrial estates towards business incubators, which themselves had moved from focusing on businesses located within incubators to a more sectoral approach. International enterprise centres were the third generation of incubators providing convergent services, including venture capital, to both domestic and foreign small enterprises.

35. A number of delegations questioned the usefulness of EPZs as a form of enterprise clustering and expressed doubts about their ability to retain jobs and investment in the light of the phasing out of the Multi-Fibre Arrangement. Among the criticisms levelled against EPZs were their general failure to bring about skills and technology transfer to locals and to create

linkages with the rest of the domestic economy, and their exploitative labour and environmental practices. However, two examples of successful EPZ experiences, notably the *maquiladoras* in Mexico and the case of Mauritius, were presented as possible exceptions to those criticisms. That seemed to suggest that it would be necessary to review the performance of EPZs on a case-by-case basis particularly as some countries welcomed them because of the perceived benefits associated with their presence even if experience indicated that those benefits often did not materialize.

36. It was recognized that EPZs were not static and were in fact capable of evolving upwards or downwards. Some delegations felt that it would be possible to transform EPZs so that they delivered similar benefits to those achieved by other forms of clustering. The transformation could be achieved if Governments restructured incentives in such a way that firms locating in the EPZ were rewarded according to their investments in, for example, R & D, their use of local inputs and their levels of technology transfer. It was pointed out that the success of the Singapore model was rooted in its investment in human resources, strong support systems for SMEs and research facilities which had attracted the "right" kind of investment within its EPZs while at the same time laying the basis for the creation of backward linkages between the EPZs and the local economy.

37. Concern was expressed about whether there existed, or could be developed, a set of criteria to assist Governments faced with limited resources to make a cost-benefit judgement between the various alternatives available for SME development. In response to that concern, it was recommended that the costs and benefits of alternative SME support programmes should be verified and evaluated on the basis of agreed indicators such as their impact, sustainability, replicability, skills enhancement and technology transfer as well as their capacity to develop backward and forward linkages within an economy.

The role of public policies in supporting enterprise networks and clusters

38. The policy issues that are emerging against the background of globalization include the growing awareness of the need to develop economies, on a high value added, innovative basis which in turn may require new methods of industrial organization, including geographical clusters as well as cross-sectoral clusters and supply chains. The acquisition and dissemination of knowledge, particularly to small firms, has become a priority; there is a growing need for mechanisms and institutions by which firms may access international markets. Intermediary institutions could play an important role in developing supply chains. Supportive actions with respect to vertical supply chains might include: researching and analysing the configuration of supply chains; acting as brokers or facilitators, establishing connections to markets; identifying missing functions in the chain, forming supply chain associations; developing and guaranteeing competence along the chain; ensuring fair dealings and sustainable development along the chain; and building intraregional cooperation.

39. Promoting clusters is a dynamic and organic process. Therefore, government interventions have to be specific and must take into consideration the stage of development of both the country and the cluster. Governments should not impose structures on business, but should rather facilitate partnerships between actors who would normally have no interaction.

40. Governments should continue to focus on creating enabling economic environments by reducing regulatory constraints in particular and by adapting their overall legal and regulatory framework to those legitimate needs that could favour clustering and networking. For many developing countries, creating a favourable economic environment, including the provision of basic infrastructure remains the primary and most effective intervention. For example, the provision of basic infrastructure was one of the critical factors contributing to the development of the information and communications technology cluster in the Netherlands. The concept of concertation (that is, of partnerships) between the public and private sector in the case of clusters needs to be given adequate attention in order to tackle such problems as housing, crime and transport.

Role of international organizations

41. With regard to the role of international organizations, it was suggested at the Expert Meeting that effective networking was necessary between United Nations bodies dealing with SME development, national and donor-funded enterprise support agencies and intermediary bodies. Governments could not cope with the quantity of policy advice given, and therefore there was an urgent need to develop a common vision of clustering and networking in particular and enterprise development in general, based on national and international experiences.

C. Action to be taken by the Commission

42. The Commission is specifically invited to take action on the recommendations made by the two Expert Meetings. In comparing the outcomes of the Meetings, the secretariat found that several recommendations called for similar action on the part of Governments, the international community and UNCTAD. In order to facilitate the deliberations and to sharpen their focus, a number of recommendations have therefore been combined. The full recommendations are contained in the respective reports of the Expert Meetings, contained in documents TD/B/COM.3/12-TD/B/COM.3/EM.4/3 and TD/B/COM.3/14-TD/B/COM.3/EM.5/3.

Recommendations addressed to Governments

1. *Enabling environment*

(a) Government policies should focus on creating and maintaining an overall economic environment ("an enabling environment") conducive to inter-firm cooperation. This includes providing close support to enterprises and encouraging the creation of efficient, flexible and independent local organizations such as business associations, chambers of commerce and industry associations.

(b) Governments should ensure that the legal framework is favourable to inter-firm cooperation and should define clearly the legal and regulatory measures that govern business and inter-firm transactions and collaboration, such as the system of property rights, contract law, commercial law, special tax measures and dispute settlement. In addition, it is important that Governments ensure effective and efficient implementation of their legal and regulatory measures.

(c) Central Governments, particularly in developing countries and economies in transition, are invited to maintain their focus on creating an enabling macroeconomic environment, a favourable legal and regulatory framework and providing basic infrastructure and services, including education, which encourage clusters and cooperation between firms. They are invited to establish the appropriate level of decentralization for policy formulation and implementation and for support measures for SME development.

2. *Measures for promoting cooperation - to be taken by Governments*

(a) Governments and private sector bodies need to play an active role in preparing the ground for inter-firm partnerships through, among other measures, raising awareness of the potential benefits from such partnerships and providing local firms with access to information as well as the right mix of financial and technical support where needed. Measures should also include access to independent advice at various stages of a partnership, for example during initial negotiations or when consolidating a partnership. In this regard, Governments should work with private- and public-sector bodies to systematically collect information on the progress being made in locating partners for technology, production and marketing cooperation and in identifying the different types of arrangements being entered into with a view to disseminating best practices.

(b) Given that measures to simulate SME clustering and networking will need to be formulated and implemented at the local and regional levels, Governments should encourage and empower meso-level institutions (e.g. trade, professional and business associations, non-governmental organizations and SME support systems) to play an active role in promoting SME networking and clustering rather than assisting individual firms.

3. *Measures for promoting cooperation to be taken by the international community*

(a) In support of national and regional initiatives to promote inter-firm cooperation, corresponding efforts should be made at the level of multilateral and bilateral cooperation. These efforts could include the creation of inter-firm cooperation opportunities (e.g. through pilot projects, fairs, study tours), training of staff from interested firms, facilitating technology transfer, provision of experts, financial assistance to support structures as well as information services. International cooperation schemes in developing countries and economies in transition should address the requirements of modern production (e.g. quality control, just-in-time production). Partnering agencies could also assist would-be partners to better articulate their objectives, focusing on trust-building processes and developing activities designed for this purpose.

(b) Leadership and trust, which are crucial for effective networking and clustering, should be nurtured through innovative programmes which focus on bringing together a critical mass of committed and dynamic entrepreneurs.

(c) Bearing in mind that policies and programmes must be tailored to the stage of evolution in the cluster, network or enterprise, Governments, the international community and civil society are invited to promote SME clustering and networking through measures such as:

(i) creating SME networking opportunities (e.g. seminars, fairs, study tours, exchange of staff);

(ii) developing manuals drawing on the expertise and experience of the relevant bodies on how to create and run a business association, business incubator, innovation centre, export production village, or special economic zone taking into account the stage of development and cultural diversity;

(iii) encouraging cooperation among service providers, to avoid oversupplying and overlapping business development services;

(iv) promoting support systems which are initially partially subsidized, particularly when directed to innovation and venture creation.

(d) Bilateral and multilateral bodies should:

(i) promote networking and periodic information exchange on their programmes and projects; and

(ii) work together to increase the synergy among their programmes, in particular between those which offer financial services and those which offer non-financial services.

Recommendations addressed to UNCTAD

(a) Several initiatives could be undertaken by UNCTAD in cooperation with other international organizations, such as the United Nations Industrial Development Organization (UNIDO), the International Trade Centre UNCTAD/WTO (ITC) and the United Nations Development Programme (UNDP), to support the process of inter-firm cooperation. There is a need to (i) identify best practices in promoting inter-firm cooperation; (ii) develop criteria and checklists of conditions, capacities and attitudes which make companies "partnership-ready", taking into account local conditions; (iii) provide advice to Governments on creating an appropriate policy environment for inter-firm cooperation as well as advice on policy options within specific sectors; and (iv) address the needs of least developed countries at the pre-collaboration level by identifying ways of enabling enterprises to build contractual trust through their legal systems, goodwill by creating a common vision among the partners and technical trust by strengthening their technological and managerial capabilities to carry out agreed tasks.

(b) Given the importance of creating a culture of innovation within firms, the experts recommended that UNCTAD should work together with other United Nations agencies including UNIDO, ITC, UNDP and the International Labour Organization (ILO) to realize the benefits of complementary SME programmes.

(c) UNCTAD should prepare a study on innovative, non-fiscal incentives which can be used to stimulate clustering, promote investment, develop positive linkages within the domestic economy and result in a greater transfer of skills and technology.